

The complaint

Ms T is unhappy with the amount of compensation HFC Bank Limited has offered to settle her complaint about a mis-sold payment protection insurance (PPI) policy taken out alongside her credit card.

What happened

Ms T took out a PPI policy with a credit card in July 2004. The PPI was cancelled in March 2010. HFC upheld Ms T's complaint that she'd been mis-sold the policy and offered £9,854.44 to compensate her for this mis-sale.

HFC said the compensation aimed to put Ms T back in the position she would have been in had she not taken the PPI. Ms T wasn't satisfied that HFC had calculated the compensation correctly and complained to this service about this.

Our adjudicator said what HFC had offered Ms T was fair. But Ms T still wasn't satisfied and so the case has been passed to me for a final decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

As HFC has upheld Ms T's complaint that the PPI was mis-sold, I am not looking at the sale of the PPI in this decision. I am only considering if HFC's offer of compensation for the mis-sold PPI is fair.

When a PPI policy attached to a credit card has been mis-sold, the business needs, as far as possible, to put the consumer in the position they would have been in had they not taken out the policy. To do this, all premiums charged for the PPI must be repaid, plus any interest or charges caused by the PPI being added to the card account. The business must also pay compensatory interest at a simple rate of 8% for any period a consumer is out of pocket. For credit cards, this is when the account would have been expected to be in credit had the PPI premiums not been wrongly charged to it.

HFC has provided a list of the transactions on the credit card from 2004 to 2015, including the PPI premiums that were applied to the account between 2004 and 2010. I have confirmed from these that the total premium amount stated in Ms T's redress calculation – £3,407.09 – is correct.

I'm also satisfied that HFC has used the appropriate methodology to undertake a reconstruction of her card account, in the way I would have expected, in order to calculate the additional interest and charges of £2,739.19 which Ms T incurred on her account because of these PPI premiums.

Finally, I'm satisfied that HFC has also used the appropriate methodology to determine the simple interest at 8% for the times when Ms T's account balance would have been expected

to be in credit had it not been for the PPI premiums - together with associated interest and charges – that were wrongly added to her account, causing her to be out of pocket. And HFC has correctly deducted tax of £927.04 from this compensatory interest of £4,635.20 in the way it is required to do.

Ms T has expressed concern that additional commission may have been incurred in relation to the PPI, and not accounted for in the calculation. In the case of PPI, commission formed part of the premiums charged to the card, so the refund of premiums will account for the relevant commission.

Ms T has also queried an increase in the credit limit on the card, and whether this was done to increase the PPI charges. The credit limit is not part of this complaint and I have no information about the circumstances, so I cannot comment on it here. But as I have noted above, the PPI premiums charged are included in the offer of compensation, together with consequent interest and charges.

Finally, Ms T has expressed doubt about a credit balance arising on the credit card given the nature of the product. However, as I've explained above, the calculation of compensation includes a reconstruction of the account to remove the effect of the PPI and consequent charges and interest, and is not limited to the period when PPI was in force. Whilst I don't have the month-end balance figures, the interest charges for the latter period in particular are relatively low, suggesting that the credit card account would have been in credit for some time had the PPI premiums and consequent interest and charges not been applied.

In summary, I have no reason to think that the compensation which HFC has offered to Ms T was not calculated in the way in which this service would have expected in these circumstances. This means that I think the compensation offer to Ms T was fair and will, as far as is possible, put her back in the position she would have been in if the mis-sale hadn't happened. So I don't think HFC needs to do anything more, other than to pay the compensation to Ms T if it has not already done so.

My final decision

For the reasons I've given, I'm not upholding this complaint against HFC Bank Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms T to accept or reject my decision before 4 January 2023.

Jan Ferrari
Ombudsman